EDUCATION AND THE WORKFORCE
COMMITEE CHAIRMAN JOHN KLINE

BASIC Q&As ON A DISCUSSION DRAFT TO MODERNIZE MULTIEMPLOYER PENSIONS

Question: Would the retirement plans created under the proposal be defined benefit or defined contribution retirement plans?
Answer: The proposal creates a new retirement option that mirrors the qualities of both defined benefit and defined contribution pension plans. The new retirement option, known as "composite plans," would provide retirees an annuitized benefit much like defined benefit pension plans. Composite plans will also provide employers the flexibility and certainty typically associated with defined contribution plans. The trustees of a composite plan will have the ability to act in a manner that provides workers and retirees a stable, secure retirement benefit.

Question: How will this proposal benefit employers?
Answer: Employers need more flexible retirement options to promote the financial well-being of their workers and the competitiveness of their businesses. This proposal allows employers to contribute to plans that provide retirement benefits without the burdens and risks associated with the traditional defined benefit system. By providing a retirement option that offers more certainty and flexibility, employers will have greater opportunity to expand their businesses and hire new workers.

Question: How will this proposal benefit workers?
Answer: Too many Americans will retire from the workforce without adequate financial security. This proposal will empower millions of workers with another option to save for retirement. By providing trustees important flexibility to manage the composite plan effectively and responsibly, the proposal will help provide workers a stable, secure annuitized benefit when they retire. This is one step—and an important step—Congress can take to strengthen the retirement security of America's workers.

Question: How will this proposal benefit retirees?
Answer: Many retirees in the traditional defined benefit pension system face significant risks. There are numerous plans that will be unable to keep the promises that were made as these plans slip into insolvency. When that happens, retirees will have their benefits cut and many will be at risk of losing everything. Instead of extending a system that can lead to significant risk and broken promises, this proposal provides a different approach. Retirees will be accruing and earning a benefit that they know is expected to change, much like 401(k)s have for decades. However, by including strict funding requirements that will ensure composite plans are responsibly managed, the proposal will provide retirees greater certainty and financial stability for the years ahead. This proposal will provide one more option to help individuals retire with financial security and peace of mind.

Question: How will this proposal benefit taxpayers?
Answer: Under the traditional defined benefit pension system, the Pension Benefit Guaranty Corporation insures the pensions of workers and retirees up to certain limits. Should the PBGC become insolvent—and it is projected to be in less than 10 years—then taxpayers will be at risk of funding a multi-billion bailout. Under this proposal, the federal government will not guarantee the benefits of composite plans. Instead, the proposal will put in place strict funding rules to ensure

composite plans are well funded now and in the future. This will protect the best interests of workers, retirees, and just as importantly, taxpayers.

Question: Does the proposal weaken current funding standards for traditional multiemployer pension plans?
Answer: No. The proposal includes a number of reforms to ensure existing plans are adequately funded. For example, the proposal requires transition contributions to help guarantee existing plans are well funded and able to meet the retirement needs of its participants. The proposal strikes a balance between taking tough steps so that current pension commitments are met, while also providing an important opportunity for employers and unions to adopt a new retirement option that will help strengthen the retirement security of their workers.

Question: Will existing multiemployer pension plans facing severe financial challenges be able to transition to the composite plan design?
Answer: No. Based upon the feedback the committee received from retiree advocates, the proposal does not allow any existing plan in critical status (also known as "red zone status") to transition to a composite plan design. This prohibition also applies to existing plans that are expected to be in red zone status within a five-year period.

Question: Will this proposal undermine the financial health of existing multiemployer pension plans?
Answer: No. Many multiemployer defined benefit plans face severe funding challenges. These plans are not permitted to utilize this new option. For those existing multiemployer pension plans that are healthy now, the proposal will require that any remaining benefit promises continue to be adequately funded.

Question: Does this proposal allow employers to escape their responsibilities to their traditional multiemployer pension plan?
Answer: No. Under current law, employers may already leave the defined benefit system to establish 401(k) plans. By contrast, employers who agree to contribute to composite plans will be required to contribute to the traditional defined benefit plan until the existing plan is fully-funded at 100 percent funded. This will adequately fund existing multiemployer pension commitments and help protect retirees.

Question: Will this proposal exacerbate the fiscal challenges facing the Pension Benefit Guaranty Corporation?
Answer: No. Because PBGC acts as a federal backstop to defined benefit pension plans, taxpayers are at risk should the agency become insolvent. That is why Congress has and will continue to take steps to improve PBGC's long-term fiscal health. It is also why, under this proposal, composite plans benefits will not be guaranteed by PBGC. The proposal provides trustees of composite plans the flexibility that is necessary to ensure a stable, secure retirement plan without the promise a federal guarantee backed by hardworking taxpayers.

Question: Does the proposal raise premiums to improve the funding of the Pension Benefit Guaranty Corporation?
Answer: Congress took action in 2014 that raised PBGC premiums from $12 to the current $27. However, PBGC's multiemployer insurance program still faces a $52 billion shortfall and is projected to be insolvent in less than 10 years. More work is desperately needed to shore up the fiscal health of PBGC. Failure to act will jeopardize the retirement benefits of millions of Americans and increase the risk of a multi-billion dollar taxpayer bailout. The committee welcomes public feedback on reforms that will improve PBGC's financial outlook to be included in a final legislative proposal.